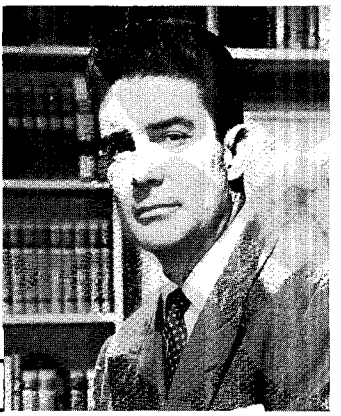
THE
# Dan Smoot Report

Vol. 8, No. 21 (Broadcast 354) May 21, 1962 Dallas, Texas



DAN SMOOT

# WITHHOLDING TAX—PART IV

## Favoritism

On March 29, 1962, the House of Representatives passed the Revenue Bill of 1962 (HR 10650). In mid-May, the Bill had not yet become law, because the Senate had not yet acted on it — and was under intense public pressure to defeat the measure.

The two sections of the Revenue Bill of 1962 creating the most public opposition are: (1) the section permitting business firms to deduct, as a tax-exemption, 7 percent of everything they spend for new equipment and production facilities; and (2) the section providing for withholding income tax on earnings from investments, dividends, and interest. But, in its entirety, the Revenue Bill of 1962 reflects a philosophy of government quite alien to American constitutional concepts.

For example, the section which gives business firms a 7 percent tax-exemption on investment in new facilities, specifies that public utilities will get only a 4 percent tax-exemption. Why this discrimination against public utilities? Spokesmen for the Bill said that public utilities would have to pass the tax-savings on to consumers; and that would defeat the purpose of the bill — which is *not* to create lower prices for the consuming public![1]

The bill defines "public utilities" in such a way as to prevent small, independent telephone companies from getting the full 7 percent tax-exemption; but it allows the full 7 percent for International Telephone and Telegraph Company.[2]

Representative Bruce Alger (Republican, Texas) says:

**"At the end of World War II, we had about 6,000 independent telephone companies in the United States. Almost half of these have since been swallowed up by the larger companies. . . . These 3,000 independent telephone companies are small business, and much more**

THE DAN SMOOT REPORT, a magazine published every week by The Dan Smoot Report, Inc., mailing address P.O. Box 9538, Lakewood Station, Dallas 14, Texas, Telephone TAylor 4-8683 (Office Address 6441 Gaston Avenue). Subscription rates: $10.00 a year, $6.00 for 6 months, $3.00 for 3 months, $18.00 for two years. For first class mail $12.00 a year; by airmail (including APO and FPO) $14.00 a year. Reprints of specific issues: 1 copy for 25¢; 6 for $1.00; 50 for $5.50; 100 for $10.00 — each price for bulk mailing to one person. Add 2% sales tax on all orders originating in Texas for Texas delivery.

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**deserving of a subsidy, if we are going to give one, than would be a lot of other businesses which will get this windfall."** [3]

Section 4 of the Revenue Bill of 1962 provides for the most vicious and corrupting kind of official favoritism: the kind which the individual tax examiner can give to the individual taxpayer, *if* the tax examiner *likes* the taxpayer and *wants* to help him. Section 4 imposes tighter controls on the "expense account" spending of businessmen — limiting the amount they can spend for their own food and lodging while they are traveling on business, and limiting the amount they can spend for entertaining customers.

United States Representative Eugene J. Keogh (Democrat, New York), defending the Revenue Bill of 1962, tried to explain Section 4. He said:

**"It was not the intention of the committee to disallow expenses for good-will entertaining, but rather to permit IRS [Internal Revenue Service] to question the business wisdom of any entertainment expense and its ultimate disallowance. . . .**

**"The committee did not intend to disallow reasonable good-will entertaining at conventions which is so important to the economy of many communities in the United States. . . . It was . . . the committee's intention . . . merely to require that it be reasonable. . . .**

**"In limiting living expenses while in travel status to a reasonable allowance, it is the intention of the committee that the reasonableness of these expenses will depend upon the facts in individual cases. For example, criteria or standards such as the locality in which travel is performed, the customary and usual standard of living of the person traveling, the purpose of the travel. . . ."** [4]

Thus, tax agents (who may never have had any experience *working* in a private-enterprise firm, much less *running* one) are given the power to question the "business wisdom" of taxpayers. A tax agent can decide what "standard of living" a businessman can maintain while away from home on business — although it is the businessman's money being spent, not the tax agent's. The agent can require one businessman to live in cheap hotels and eat inexpensive food, but permit another man to engage penthouse suites and live lavishly.

United States Representative Joel T. Broyhill (Republican, Virginia) correctly characterizes the Revenue Bill of 1962 as,

**"a bill to provide windfalls for a favored few businesses, to create additional defects and inequities, and to compound the confusion and injustice in our tax system."** [5]

## Tax Avoidance

The Revenue Bill of 1962 will further deflect the energies of the American people away from productive and creative activities and channel them into tax-avoidance activities.

Tax avoidance is different from tax evasion. Tax avoidance is legal and respectable. Great accounting firms, firms of tax lawyers, and tax counseling firms exist for the purpose of helping taxpayers avoid paying federal tax. Major national magazines, metropolitan newspapers, and widely syndicated columnists devote space every year to articles advising taxpayers how to report and juggle income, expense, exemptions, and deductions in such a way as to arrive at the maximum in tax avoidance.

Private firms publish books each year to help taxpayers avoid tax — and so does the Government Printing Office. The Internal Revenue Service itself operates a "free" tax-avoidance consultation service for taxpayers.

Tax avoidance is a *major* activity of the ablest business and industrial (if not of the professional) leaders in our land.

If all the energy and ingenuity and time which now go into the activity of tax avoidance were devoted to creative and productive enterprise, we would see a mighty upsurge in our national living standard — not to mention



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a lifting of the intellectual, moral, artistic, and spiritual level of the people.

The federal income tax begins at 20% of a person's taxable income and is steeply graduated to 91%. When a taxpayer's income rises to 51% of what he makes, he must de-emphasize creative and productive activity, and concentrate on tax avoidance. If he *earns* another dollar, he will get to keep only 49¢ of it. If he can avoid paying tax on a dollar, he saves 51¢.

Project this upward to the level where government takes 91% of a taxpayer's taxable income; and it is easy to see why the ablest people in the country devote much of their productive time to elaborate and complicated manipulations to avoid tax.

One odd accomplishment of our taxing system is to put a premium on waste and inefficiency. A company efficiently marketing a product or service which the public likes well enough to buy in large quantities, often becomes so successful that it must encourage extravagance in order to avoid taxes. Near the end of a tax year, many firms which have operated efficiently and, thus, have done well, plunge into advertising programs which they don't really expect to be worth the cost. Some buy supplies they don't need; some — if the tax men are clever enough to figure out how it can be "expensed" — get new equipment.

The present taxing system takes many of our best people out of productive activity — or stifles their incentive for expanding — when they are in their prime and could contribute most to the economic well-being of the nation.

A man who has courage, energy, integrity, luck, and genius in business or industrial enterprise amasses a respectable fortune by the time he is 55. Still energetic, he has just reached the peak of his productive capacity. In his business activities, he has made a great contribution to the general welfare of his fellow man — by producing something which people want and selling it at a price which they are willing to pay. At age 55, he is at a point where he could begin to multiply his contribution to the general welfare; but there are no normal incentives to encourage continuation of his present contribution, much less expansion of it.

Amass more money to leave for his children? He has already provided for them with trusts and whatnot. If he accumulates more for them, death taxes will take most of it.

Feeling of responsibility for his employees? This, indeed, is a motive which keeps many a man going beyond the time when, because of taxes, he would like to quit. But it is seldom, if ever, a motive to expansion.

A man — particularly if his business is "unionized" by one of the big international unions — knows that his brains, and hard work, and capital have provided jobs for his employees, who would be hurt if he closed down and moved to Monaco; but he also knows that his employees do not, generally, share his knowledge. Very often, his own employees have been taught to hate him, because he has grown rich "on their labors."

Not only union bosses are responsible for this attitude of his employees. The churches and colleges and foundations which he supports with his contributions; the magazines and newspapers and broadcasting stations which he supports with his advertising; and the government which he supports with his taxes — all, in many instances, have produced and amplified the anti-business propaganda which has saturated the thinking of millions of Americans, making them envious and suspicious, if not downright hostile, toward the successful businessman and his profits.

The income tax feeds the propaganda mills grinding out hatred and distrust of the profit-motivated system of private capitalism.



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## Reforming the Mess

The House Ways and Means Committee (the tax-writing committee of Congress), under the chairmanship of Wilbur Mills (Democrat, Arkansas), began formal hearings, November 16, 1959, on the problem of revising our crazy taxing system, to "eliminate inequities, and close loopholes."

The committee has heard experts from labor unions, universities, business, and governmental agencies. All witnesses agree that our tax system is an appalling mess of complicated inequities, which stifles initiative, wastes human energy and resources, and has a corrupting and debasing effect on people generally.

They also agree that the knottiest revenue problem under our present tax system is not illegal tax evasion which conceals 29.5 billion dollars a year from the tax collector and thus costs the government 5 billion dollars a year in taxes, but legal tax avoidance which exempts more than 200 billion dollars a year from the federal income tax and costs the government 45 billion a year in tax revenue.

The hearings and heavy labor of the Ways and Means Committee produced the Revenue Bill of 1962, which, as Representative Broyhill says, makes matters worse.

In a way, however, the Committee hearings on tax reform did perform a valuable service to the nation. They helped publicize the alarming tax situation which exists, and they revealed that the complexities and tug of special interests make any sensible reform of our present system quite impossible.

There is only one thing to do with our federal income tax system: get rid of it. United States Congressman James B. Utt (Republican, California) has proposed a constitutional amendment to repeal the Income Tax (16th) Amendment and require the government to divest itself of all activities which place it in competition with its own citizens.

## Withholding Is The Key

Public support for an amendment to abolish the federal income tax system is growing, but the arrogance and illegal power of government are growing faster. Constitutionalists could win this race for time and create an over-powering demand for repeal of the Income Tax Amendment before it is too late, if they could persuade Congress to repeal the law which authorizes withholding of income tax from wages and salaries.

The withholding law conceals from millions of wage earners the facts that *they* are paying for the kind of corruption revealed in the Billie Sol Estes case; that *they* are paying for aid to communist nations and to "neutralist" nations like India and Indonesia whose rulers are almost as bitterly anti-American as communists are; and that *they* are paying for the kind of tyrannical stupidity revealed in the case of Jesse Stalker, of Ravena, New York.

Mr. Stalker is a dairy farmer. Washington bureaucrats classify him as a producer-handler of milk, which means that he milks his own cows and sells his milk directly to customers. He has spent 23 years of hard work, building a herd of dairy cows and a good business.

In 1958, when he needed to buy extra cream from other dairymen, to meet the demands of customers, Stalker had to get a federal permit to buy it.

There is a federal regulation that he knew nothing about — and that was not mentioned to him when he got his federal permit. The regulation says that a producer-handler like him can buy extra cream only in 1-quart or 2-quart containers. Not knowing about that, Jesse Stalker violated the federal regulation, by buying cream in 20-quart cans. The long arm of the law caught up with him. The Department of Agriculture administratively imposed on Jesse Stalker federal fines totaling $20,899.90.



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His only offense—the only offense charged against him — is that he bought cream in big cans instead of little ones. The monetary penalty which the Department of Agriculture has imposed on Jesse Stalker, without benefit of trial by jury, is considerably greater than federal courts, under the laws and the Constitution, could impose for bank robbery or for membership in the communist party.

Stalker is fighting the case — and says he will try to fight it all the way to the Supreme Court. But even if he wins, the harassment, and the time away from business, and the cost, will probably bankrupt him anyway.

The wage earners of America would rebel against paying for this kind of idiocy, if they realized they are paying for it. They would come abruptly to that realization if we eliminated the withholding of income tax from wages and salaries.

A man of courage has taken the first necessary step toward the elimination of our corrupting and despoiling income tax system. On April 30, 1962, United States Representative Bruce Alger introduced HR 11492, to eliminate the withholding of income tax from wages and salaries.

Every American who cares should use every means available to create maximum public support for the Alger Bill.

## An Equitable System

In the March 12, 1962, issue of this *Report* ("Repeal The Income Tax"), we presented official statistics revealing that in the first two peace-time years of the Kennedy Administration, the federal government will collect 220 billion, 859 million dollars in taxes — almost three times as much as the 87 billion, 769 million, which is the *total* of all tax collections by the federal government from Presidents George Washington to Franklin D. Roosevelt (1789-1932, 143 years).

In the fiscal year ending June 30, 1963, the federal government's budgeted tax collections from sources *other* than personal incomes will total 43 billion, 700 million dollars; and the government will still show a deficit — will spend more than it collects. In 1948 — Harry Truman's biggest peace-time taxing year — the *total* budgeted tax collections of the federal government (*including* tax on personal incomes) was 41 billion, 375 million; and in 1948, the federal government had the biggest surplus in the history of the nation (8 billion, 419 million).

Obviously, if the federal government were restricted to constitutional functions, it could provide better national defense and better government than now, without an income tax. It could get all the money needed from the conventional tax sources that provided adequate revenue from 1789 to 1913, before the Income Tax Amendment was adopted.

Paying off the national debt (which the income tax has enabled government to accumulate) would require higher taxes than needed for the activities of government. Until that debt is paid, we Americans must carry a heavy tax load, even if we do restrict our federal government to legitimate constitutional functions.

The load should be equitably distributed.

For every job which private enterprise provides, an investment of about $20,000.00 must be made. This does not apply to all businesses; but it is, roughly, the national average: it takes an accumulation of $20,000.00 of private capital to provide one job.

A little reflection on our population figures (explosive increase in birth rates, longer life expectancy) will indicate the tremendous sums of additional private capital needed every year to provide new jobs for millions reaching the age of employment.

Yet our punitive tax system (sucking private funds into the maw of government for



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activities which are, at best, non-productive) is making accumulation of investment capital increasingly difficult. If the present trend holds, the result will be declining industrial expansion, increasing unemployment, and falling living standards — with ever-increasing pressures for government to take over completely and scrap our "decadent" system of private capitalism in favor of total socialism.

The effects of our present taxing system are harmful, because the present concept of federal taxation is wrong.

Any federal tax levied for any purpose whatever, except to raise the minimum amount of revenue which government must have to perform constitutional functions, will distort the national economy, and create powerful incentives for corruption and special-interest lobbying.

Federal taxation is now considered not just as a means of raising revenue for government, but as a means of regulating and controlling — of punishing certain persons and industries, rewarding others. The result is taxation designed to win votes — politicians and parties buying political support by promising special tax treatment for special groups.

We need a tax system, devised for the sole purpose of raising revenue, which treats all taxpayers alike — which does not aim at reward or punishment for taxpayers; which does not aim to stimulate or restrict the economy; which does not give politicians and bureaucrats the power to determine what commodities are "good" or "essential" and what commodities are "bad" or "non-essential"; which does not give politicians and bureaucrats the power to determine what businesses or groups or individuals require special tax treatment.

An *ideal* taxing system would require each person to pay for the governmental services he uses — and no more. It is impossible for man to devise any system that is *ideal;* but we could devise a system *founded on the ideal* of equal and impartial taxation. At present, federal taxation is used to punish and reward.

One man has vast holdings and an income of one million dollars a year.

Another man works for wages, owns nothing except a few personal items, and has a net income of $5000.00 a year.

The wealthy man "uses" considerably more "governmental services" than the wage-earner. He has property which enjoys protection against domestic criminals and foreign enemies. The courts protect the contracts essential to his business enterprises — and so on.

Can you equitably determine the amount of federal income tax these two men should pay by comparing their net incomes? One man's net income is 200 times greater than the other man's. The 5000-dollar-a-year man (with wife and two children) has approximately $405.00 a year withheld from his wages for federal income tax. If the wealthy man (also with wife and two children) paid 200 times that much in federal income tax, his tax would be about $81,000.00.

That would be more equitable than the system we now have. Under the present system, the man who makes *200* times as much as the other will pay more than *2000* times as much tax.

This disproportionate tax on the wealthy man is justified with arguments about his ability to pay. Even though he does pay 2000 times more tax than the other man, he still has more left. This is the communist argument for a progressive income tax: "from each according to his ability, to each according to his need."

A society cannot remain free if tax laws are in any way discriminatory — if they are written to embrace such considerations as how much a man will have left after taxation. The federal government should have no legal right to concern itself with the question of how much a man will have left after taxes.


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Indeed, the federal government should have no legal right to concern itself with what a man's income is. You cannot have an equitable *income* tax, even if it is non-progressive.

The progressive feature of our federal income tax system — taxing big incomes at a higher *rate* than low incomes — is the worst feature of the system. But suppose we had a flat-rate federal income tax.

Then the man with a one-million-dollar-a-year net income would pay exactly 200 times as much federal income tax as the man with a 5000-a-year net income.

This would be discriminatory against the low-income wage-earner: the wealthy man's varied enterprises provide opportunities for legal tax avoidance which a man on salary cannot enjoy.

A federal consumer's tax could be equitable: a fixed percentage tax on all commodities and services, with no discrimination: whiskey taxed as much as milk; bread as much as tobacco.

I am opposed to a federal consumer's tax, as a supplementary tax, added to the system we now have. Indeed, I regard the federal sales taxes that already exist (on telephone bills, travel, "luxury items," gasoline, and so on) as undesirable because they are discriminatory, unevenly applied.

But if the whole income tax and excise tax system were replaced with a fixed percentage consumer's tax on all commodities and services, we would be *nearer* an ideal federal taxing system.

Let us say that you now pay 25¢ for a loaf of bread and 50¢ for a half gallon of milk. If a 10% federal consumer's tax were imposed on top of those prices, it would hurt low-income people. But if you removed from the prices of bread and milk all the federal taxes now *hidden* in them, and *then* imposed a 10% federal consumer's tax, the prices of bread and milk would drop sharply.

If you removed all the *hidden* federal taxes, you would probably find that the loaf of bread costs 15¢ instead of 25, and the half gallon of

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milk costs 30c instead of 50 — or less. Add the 10% federal consumer's tax: you would pay 17¢ for bread that now costs a quarter, and 33¢ for milk which now costs 50¢.

This would be an equitable tax, imposed on all alike, giving politicians and bureaucrats no opportunity to discriminate for or against anyone — making no one beholden to the makers and enforcers of our tax laws. It would be a visible tax: every person who bought anything would be aware of the federal tax. It would be pay-as-you-go tax, without the unconstitutional, enforced-servitude features of the present withholding system. It would eliminate the mammoth tax-avoidance industry which has grown on our present tax system until it consumes the energies and time and abilities of the ablest people in our land, deflecting their efforts away from creative and productive activities. It would reduce the possibility of tax evasion, and the cost of administration and enforcement.

## Laos

If you are confused by events in Laos, which seem to be marching toward a dangerous climax, you will find it helpful to review the April 9 and 16 issues of this *Report* — "Laos — Part I," and "Laos — Part II."

These two issues on Laos set out, briefly but rather comprehensively, a chronological history of United States activity in Laos — and they conclude with a recommendation of what our policy should be.

Reprints of the two issues on Laos are still available, at our regular prices: 25 cents for single copies; 6 for $1.00; 50 for $5.50; 100 for $10.00.

### FOOTNOTES

(1) ***Congressional Record*, March 28, 1962, p. 4913, column 1, speech of U. S. Representative Bruce Alger**

(2) **Remarks of U. S. Representatives Eugene J. Keogh, Wilbur Mills, and Charles A. Vanik, in column 2 on page 4887 of the *Congressional Record*, March 28, 1962; and the remarks of Bruce Alger in column 1 on page 4913**

(3) **Column 1, page 4913, *Congressional Record*, March 28, 1962**

(4) **Columns 1 and 2, page 4885, *Congressional Record*, March 28, 1962**

(5) ***Congressional Record*, March 28, 1962, column 2, page 4887**


## WHO IS DAN SMOOT?

Dan Smoot was born in Missouri. Reared in Texas, he attended SMU in Dallas, taking BA and MA degrees from that university in 1938 and 1940.

In 1941, he joined the faculty at Harvard as a Teaching Fellow in English, doing graduate work for the degree of Doctor of Philosophy in the field of American Civilization.

In 1942, he took leave of absence from Harvard in order to join the FBI. At the close of the war, he stayed in the FBI, rather than return to Harvard.

He worked as an FBI Agent in all parts of the nation, handling all kinds of assignments. But for three and a half years, he worked exclusively on communist investigations in the industrial midwest. For two years following that, he was on FBI headquarters staff in Washington, as an Administrative Assistant to J. Edgar Hoover.

After nine and a half years in the FBI, Smoot resigned to help start the Facts Forum movement in Dallas. As the radio and television commentator for Facts Forum, Smoot, for almost four years spoke to a national audience giving both sides of great controversial issues.

In July, 1955, he resigned and started his own independent program, in order to give only one side — the side that uses fundamental American principles as a yardstick for measuring all important issues.

If you believe that Dan Smoot is providing effective tools for those who want to think and talk and write on the side of freedom, you can help immensely by subscribing, and encouraging others to subscribe, to *The Dan Smoot Report.*




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